

## Message Text

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ORIGIN ARA-10

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DRAFTED BY ARA:NC:TWSONANDRES

APPROVED BY ARA - MR. LUERS

ARA:NC - MR. JOHNSON

ECP/IFD/OIA - MR. STEBBING

L/ARA - MR. KOZAK

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R 031734Z MAR 76

FM SECSTATE WASHDC

TO AMEMBASSY CARACAS

C O N F I D E N T I A L STATE 051759

E.O. 11652: GDS

TAGS: EMIN, EINV, VE, US

SUBJECT: CODSA DIFFICULTIES WITH VENEZUELAN GOVERNMENT

1. AMERICAN CITIZEN JOHN STEWART OF THE VENEZUELAN GOLD AND DIAMONDS CORPORATION (CODSA) SAW ARA DEPUTY ASSISTANT SECRETARY WILLIAM H. LUERS ON MARCH 1 TO DISCUSS RESTRICTIONS ON HIS MINING CONCESSION OPERATIONS IN SOUTHERN BOLIVAR STATE.

2. STEWART DESCRIBED CODSA AS GROUP OF EXPLORATION AND PRODUCTION CONCESSIONS CONTAINING, ACCORDING TO A LONDON TIN GROUP GEOLOGICAL SURVEY ESTIMATE, AS MUCH AS \$500-\$800 MILLION WORTH OF GOLD AND DIAMONDS AND \$2.5 MILLION IN EQUIPMENT AND FACILITIES. HE EXPLAINED THAT IT HAD BEEN HIS INTENT TO DEVELOP THE CONCESSIONS FOR AN EVENTUAL JOINT VENTURE OR SALE TO A MAJOR FOREIGN CONCERN. HE HAD HELD NEGOTIATIONS WITH BETHLEHEM STEEL OVER A JOINT  
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VENTURE ARRANGEMENT AND WITH THE LONDON TIN GROUP REGARDING

A DIRECT SALE. BOTH LOST INTEREST, HOWEVER, THE FORMER WHEN IT REALIZED THAT ITS OWN PROPERTIES WERE TO BE NATIONALIZED, AND THE LATTER WHEN IT BECAME APPARENT (SEE BELOW) THAT CODSA ITSELF WOULD BE EXPROPRIATED.

3. WITHIN MONTHS OF INITIATING A PILOT DEVELOPMENT

PROGRAM IN JUNE 1974, CODSA LEARNED THAT THE BOLIVAR STATE GOVERNOR PLANNED TO QUOTE CONFISCATE UNQUOTE HIS PROPERTIES AND WAS WAITING FOR PRODUCTION TO BEGIN ON A SCALE GENERATING SUFFICIENT EARNINGS TO PAY FOR THE PROPERTIES. STEWART IS UNWILLING TO PUT FURTHER CAPITAL INTO THE PROJECT UNDER SUCH CIRCUMSTANCES AND HAS SHUT DOWN EXCEPT FOR MAINTENANCE OPERATIONS. HE ANTICIPATES, HOWEVER, THAT THE GOV WILL EVENTUALLY USE NON-PRODUCTION AS GROUNDS FOR REVOKING THE CONCESSIONS. STEWART LEARNED OF A NATIONAL GUARD ORDER PROHIBITING ENTRY OR DEPARTURE OF HIS EQUIPMENT WHEN HE ATTEMPTED TO TRANSPORT SOME \$24,000 IN EXCESS DRILLING MATERIAL FROM HIS CONCESSIONS TO PUERTO ORDAZ FOR SALE. FURTHER INVESTIGATION REVEALED THAT THE NATIONAL GUARD ORDER WAS ISSUED AT THE INSTIGATION OF THE BOLIVAR STATE FISCAL DIRECTOR WHO IS REPUTED TO BE ENGAGED IN PROVINCIAL RIP-OFFS OF LOCAL MINERS. THE DIRECTOR IS EVIDENTLY ALSO CLOSE TO BOLIVAR'S URD GOVERNOR WHO REPORTEDLY OWES HIS DESIGNATION TO A POLITICAL ARRANGEMENT WITH THE AD. IN ANY EVENT, STEWART THEN TOOK HIS CASE TO MINISTRY MINES AND HYDROCARBONS THROUGH INTERCESSIONS OF HIS CARACAS LAWYER ARISTEGUIETA (FIRST NAME UNKNOWN), BUT WEEK-TO-WEEK DELAYS THERE HAVE NOW EVOLVED INTO A YEAR AND ONE-HALF WITHOUT RESULTS.

4. STEWART SEES THE SITUATION AS A COLLECTIVE DESIRE ON THE PART OF AUTHORITIES AND OTHERS TO EXPROPRIATE HIM, HOPING, THROUGH HARRASSMENT, THAT HE WOULD QUOTE SIMPLY GO AWAY UNQUOTE. SINCE HE ESTIMATES VENEZUELANS COULD NOT BEGIN TO ENGAGE IN THE SOPHISTICATED DREDGING REQUIRED TO DEVELOP THE CONCESSIONS AND PROBABLY WOULD LIKE TO AVOID THE SOME \$10 MILLION INVESTMENT SUCH AN OPERATION WOULD REQUIRE, STEWART CONCLUDED THAT HIS FIXED

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ASSETS COULD END UP BEING USED FOR NON-MINING PURPOSES WITH THE EQUIPMENT DISBURSED TO THE FOUR WINDS. POLITICALLY, HE SEES THE CLIMATE IN CARACAS AS UNFAVORABLE FOR ANY ACTION ON HIS BEHALF, PARTICULARLY IN LIGHT OF WHAT HE SEES AS A PREVAILING LEFTIST IDEOLOGY IN THE MINES MINISTRY AND A GENERAL GOV RELUCTANCE TO GO TO BAT FOR FOREIGN BUSINESSMEN.

5. STEWART'S AIM IS TO SEEK PAYMENT THROUGH A NATIONALIZATION FOR \$2.5 MILLION IN ASSETS BELONGING TO HIM AND INVESTOR FRIENDS OR TO DISPOSE OF THE PROPERTY LOCALLY. HE IS NEITHER INTERESTED IN A SERVICE CONTRACT OR A JOINT VENTURE WITH THE GOV WHICH EVIDENTLY WAS INFORMALLY OFFERED HIM. TO ACCOMPLISH THIS END, HE HAS THUS FAR

FOLLOWED ARISTEGUIETA'S SUGGESTION TO RESOLVE THE PROBLEM THROUGH AN QUOTE OLD BOY'S NETWORK UNQUOTE RATHER THAN USING EITHER THE AMERICAN EMBASSY ROUTE OR SPENDING QUOTE TEN YEARS UNQUOTE IN THE LOCAL COURTS. HOWEVER, STEWART ASSERTS HE WILL, IF ALL ELSE FAILS, PLAY ROUGH AND SEEK TO ATTACH VENEZUELAN PROPERTY IN THE UNITED STATES OR ELSEWHERE.

6. DEPARTMENT SUGGESTED STEWART MIGHT BEST EXHAUST QUOTE OLD BOY UNQUOTE APPROACH BY PERSONALLY BECOMING INVOLVED, AND ADVISED HIM TO BRING AMBASSADOR UP TO DATE WHEN NEXT IN CARACAS (I.E., MID-MARCH). STEWART CONCURRED.

7. COMMENT: A CODSA NATIONALIZATION APPEARS IN THE WIND. WE ARE SOMEWHAT SURPRISED, HOWEVER, THAT STEWART, WITH SEVERAL MILLION DOLLARS AT STAKE, HAS SEEN VIRTUALLY NO ONE ON THIS MATTER WITH MINOR EXCEPTION OF PETROLEUM ATTACHE GRAHAM AND ONE SESSION WITH GAMBOA OF CVG. THE INFORMATION IN THIS TELEGRAM WAS GIVEN TO THE DEPARTMENT AS PROPRIETARY AND NOT FOR DISSEMINATION TO THIRD PARTIES. KISSINGER

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